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Western Air Lines Inc. 1969 Annual Report

Highlights of 1969

Operating	1969*	1968
Seat miles produced	8,509,441,000	7,096,229,000
Seat miles sold	4,021,296,000	3,841,864,000
Passengers carried	5,752,072	5,692,947
Passenger load factor — actual %	47.3	54.1
— breakeven point %	53.1	50.7
Financial		
Operating revenues	$240,351,788	$221,952,867
Operating income (loss)	$ (12,400,902)	$ 19,681,421
Net earnings (loss)	$ (12,198,860)	$ 8,435,770
Cash dividends paid	$ 2,451,634	$ 4,893,544
Common stock outstanding	4,903,879	4,901,734
Earnings (loss) per share	$ (2.49)	$ 1.72
Cash dividends per share	$ 0.50†	$ 1.00
Shareholders' equity	$ 79,309,461	$ 93,862,286
Shareholders' equity per share	$ 16.17	$ 19.15
Cash and short-term securities	$ 28,454,327	$ 27,870,420
Working capital	$ 20,447,092	$ 25,763,975
Property and equipment at cost	$429,107,512	$404,674,981
Long-term debt	$197,149,588	$183,718,216
Number of employees at year end	9,225	8,919
Wages and salaries paid	$ 87,495,153	$ 71,884,941

*Operations were suspended from July 29 to August 16, 1969 because of a strike.
†$0.25 per share paid on March 3 and on May 26, 1969.

To Our Stockholders

As detailed in the following pages of this report, 1969 was a difficult year for Western as the company experienced a loss of $12.2 million, ending a record of 20 consecutive years of profit.

Any regulated industry has problems during an inflationary period when it is unable to increase prices as rapidly as costs are increasing. Air transportation is no exception. During 1969, however, Western was faced with additional problems that contributed to the company's losses, some of which are behind us, others which remain as a challenge in 1970. These were:

Costs associated with repeated postponements in the effective date of Hawaii routes;

loss of revenue because of an 18-day strike during the peak travel season;

industrywide increases in wages, salaries, interest costs, jet fuel, materials, landing fees and rentals;

a general slowdown in the growth of air travel that resulted in a traffic increase of only five percent at a time when the company's fleet modernization and expansion program was producing a 20 percent increase in seat-mile production;

new and increased competition on the company's key domestic routes.

Western started service to Hawaii under the most adverse circumstances. After being awarded a number of Hawaii routes on January 4 for an effective date of March 5, the company began preparations for the inauguration of service. The effective date was then postponed five times by the Civil Aeronautics Board before being made final on July 22. On July 25, Western inaugurated its service, which was further interrupted four days later by an unexpected strike by the company's mechanics.

The Hawaiian market is one in which reservations by individuals and tour groups are normally made months in advance. The uncertainty of when Western would be permitted to inaugurate its service and the ensuing work stoppage made it impossible to build up advance reservations prior to the establishment of service.

The growth of traffic on new routes normally requires a period of development, particularly where competition is well entrenched or where, as in the case of Hawaii, excessive competition is authorized. A total of eight certificated U. S. flag airlines are now authorized to fly to Hawaii from the Mainland, compared to only three prior to Western's entry into the market. In addition, nine supplemental

airlines operated charter flights to Hawaii in 1969.

Because of the excessively low fare structure between the Mainland and Hawaii, the breakeven load factor for these routes is higher than is normal for routes of this length. Already one of the lowest per-mile fares in the U.S., the basic fare was reduced an additional 15 percent in 1969 for economy and coach travel during the middle of the week and was not included in the October domestic fare increases. In addition, the yield for Mainland carriers is further reduced by a common fare arrangement, required by the Civil Aeronautics Board, wherein the Mainland carrier underwrites the major portion of the fare reductions that are available for connecting flights on inter-island carriers between the islands of Hawaii.

Included in Western's operating authority for Hawaii was a condition which requires that all Hawaii-Los Angeles flights originate or terminate at a point east of California. Although this does not prevent us from carrying local traffic in the Los Angeles-Hawaii market, it does force us to extend more Hawaii flights to inland points than the market justifies and prevents us from originating or terminating Hawaii flights at Los Angeles, the location of our main maintenance base. This requirement results in reduced utilization for overwater-equipped aircraft and limits scheduling flexibility for Hawaii service.

As a result of other Civil Aeronautics Board decisions, Western now has competition on every major route it serves. On the California-Twin Cities nonstop routes, for example, the addition of competitive trunkline service in October 1969 has doubled the number of daily flights on the routes and, while Western has been able to maintain a good share of the market, the additional service and slowdown in the economy have resulted in low load factors and unprofitable operations.

Western is continuing to make improvements in the quality of its service. On our Hawaii flights, for example, we have added movies and stereo sound, increased legroom for coach and economy passengers and are providing other new in-flight features. On commuter and other short-haul routes, we have increased the legroom on all of our 737 twinjets to the same spacing as first class. We are redoubling our efforts to improve our on-time performance and have launched other programs internally—a new employees' suggestion system, a product development team and a corporate design study—to enhance the company's image and increase its load factors.

At the same time, we have carefully pruned schedules to eliminate those flights that have the least potential for profit; have reduced the number of employees by nine percent from our 1969 high; have launched a program that will permit us to retire our remaining Electras; are seeking Civil Aeronautics Board approval of an agreement with an Alaska local service carrier to substitute its service for Western's on the short-haul segments west of Anchorage that do not integrate economically with Western's route system and fleet; and have introduced strict cost-reduction programs in every department of the company.

Another factor which makes the outlook for 1970 unclear is the question of how much traffic the Boeing 747 wide-bodied jet will divert from conventional jets. These new aircraft will make their appearance on California-Hawaii routes this spring and may be introduced in competition with Western on other routes in the near future.

Your management recognizes that its most important task is to return the company to profitable operations as soon as possible and gratefully acknowledges the excellent support that is being given by our employees toward the accomplishment of this goal. We also appreciate the continuing support of our shareholders. We hope you will fly Western whenever possible and will urge your friends and associates to do likewise.

Terrell C. Drinkwater

Chairman of the Board

President

March 5, 1970

Review of the Year

Financial Results Western incurred a net loss of $12,198,860, or $2.49 a share, in 1969, compared to earnings of $8,435,770, or $1.72 a share, in 1968. Per-share results are based on 4,903,879 shares for 1969 and 4,901,734 shares for 1968, the number of shares outstanding as of December 31 each year.

The loss from operations totaled $12,400,902, compared to an operating profit of $19,681,421 in 1968. The application of other expense—primarily interest—increased the loss before tax credits to $27,273,860, compared to earnings of $13,160,770 before taxes in 1968.

The reduction of the loss by reason of tax credits totaling $15,075,000 represents essentially two factors:

1) The net credit of $12,925,000 generated by the claim for refund of taxes paid in 1966 and 1967, and
2) The benefit flowing to earnings from the $2,150,000 amortization of investment credits over essentially the useful life of the related purchased equipment.

(See Note #1 of Notes to Financial Statements.)

Revenues Total operating revenues for 1969 were $240,351,788, an 8.3 percent increase over the previous year.

Fare increases discussed more fully in a later section added approximately $7,500,000 to 1969 passenger revenues. Had these increases been in effect for the full year of 1969 they would have produced in the area of $17 million. Seattle-Alaska and U.S.-Mexico fare increases for 1970 also should have a favorable influence on yield and revenues.

Revenues from the company's new routes to Hawaii, although slow to develop, continue to improve. However, revenues from the California-Twin Cities nonstop flights were substantially decreased effective October 4 when new schedule-for-schedule competition was introduced by a newly certificated major trunkline.

Of Western's revenue dollar, 91.6 percent was derived from passenger traffic (80 percent coach and 11.6 percent from deluxe). Express, freight and excess baggage accounted for five percent· mail, 1.9 percent; other sources 1.5 percent.

Because of the strike and a slowdown in the growth of air travel, the number of passengers carried in 1969 increased only one percent. However, because the average trip length of Western's passengers increased from 675 miles in 1968 to 696 miles in 1969, seat miles sold increased 4.7 percent. The length-of-haul increase is attributable to the addition of the long-haul Hawaii routes.

Excluding July and August, which were strike-affected months in 1969, the number of passengers carried was 8.2 percent greater and operating revenues 16.3 percent higher than for the comparable 10 months of 1968.

The use of discount fares, while still representing 41.7 percent of all seat miles sold, declined below the volume sold in 1968, when 43.7 percent were sold at a discount. However, the latest figures before the strike period showed that the company's volume of discount travel, on a percentage basis, was slightly higher than the industry average.

Fare Changes Despite industry fare increases of 3.8 percent on February 20 and 6.3 percent on October 1, Western's average revenue per seat mile sold increased only 2.6 percent in 1969—to 5.51 cents from 5.37 cents for 1968.

The February increase did not apply to Alaska, Mexico or intra-California routes. Accordingly, it represented only a 3.1 percent increase over 1968 revenues for Western's system. (Although smaller than authorized by the CAB, increases in California commuter fares became effective on August 2.)

The October 1 increase again did not include Alaska, Hawaii, Mexico or intra-California routes and, as a result, represented only a 3.7 percent increase for Western, in contrast to 6.3 percent for the domestic industry.

An increase in certain Alaska fares became effective on November 15 and a second increase in California commuter fares was introduced on December 3. Approved for 1970 implementation were additional increases in Alaska fares, effective January 1, and a 10 percent increase on all fares between the U.S. and Mexico, effective March 15.

Inhibiting the growth of the average revenue per seat mile sold was the lower yield from the Hawaii routes.

An additional development in the domestic fare picture was introduced early in 1970. Although the October 1 fare increases were originally approved by the CAB through January 31, 1970, their extension beyond that date was subject to the negotiation of an agreement between the carriers, modifying the division of interline revenues and introducing lower interline fares in markets where they did not exist.

Late in January, after a series of meetings in which the Civil Aeronautics Board threatened to roll back fares to their September 30 level, Western and other trunklines reluctantly agreed to a plan which will cause a greater share of revenues to be paid to the short-haul carriers in interline travel.

As a result, the October 1 fare increases were extended through April 30, 1970. Prior to that date, the CAB expects to further consider the interline fare arrangements.

The impact of the new prorate and additional interline fares on Western's revenues is not significant for 1970, but any substantial increase in the company's length of haul in the future would bring about a dilution of Western's interline revenues.

Expenses Total operating expenses for 1969 amounted to $252,752,690, a 25 percent increase over 1968.

Operating expenses per seat mile produced increased from 2.85 cents in 1968 to 2.97 cents for 1969. Adding to the 1969 unit costs were those expenses incurred during the strike without corresponding revenue benefit. Excluding the two strike-affected months, the operating expense per seat mile produced for the non-strike months of 1969 was 2.89 cents, compared to 2.87 cents for the same months of 1968.

Major factors in the increased expense levels included the delivery of 19 new jet aircraft during the year, a 20 percent increase in seat miles produced and continuation of the inflationary trend that is escalating industry costs for wages and salaries, materials, services, landing fees and rentals.

Wages, salaries and employee benefits costs increased 23.7 percent to a total of $97,156,082, reflecting both additional employees and material increases in wage rates. Depreciation and amortization were up 39 percent, reflecting a full year's charges for the 22 jet aircraft that went into service in 1968 and the addition of 13 jets in the first half of 1969.

Interest charges increased from $6.5 million in 1968 to $14.7 million in 1969.

As a result of the increases in both operating and non-operating expenses, the breakeven load factor increased from 50.7 percent in 1968 to 53.1 percent for 1969.

Because of the high costs associated with the introduction of the 30 new Boeing 737s during 1968 and 1969, Western is amortizing certain of these costs over the first three productive years of the aircraft. At December 31, 1969, $1,196,176 had been deferred, compared to $1,000,460 at the end of 1968. In a similar manner, $484,274 in Boeing 727 preoperating costs were deferred at the end of 1969.

Finances The company's financial position is sound but the losses in 1969 (a pattern which commenced in October 1968) have eroded the strength of previous years. An earnings pattern must be resumed to assure against further slippage. At this time the outlook is at best cautious.

The ratio of current assets to current liabilities was $1.37 to $1.00, down from $1.73 to $1.00 at the close of 1968. This position resulted from the year's losses and, in addition, the planned increases in current maturities of long-term debt which totaled $16,195,627 at December 31, 1969. The level of maturities will increase to $22,965,227 at the end of 1970 and will remain essentially at that level through 1974.

To improve the working capital position, the company continued to take advantage of accelerated tax depreciation which, coupled with the loss for 1969, permitted the filing early in January 1970 of an application for tentative refund from loss carryback. This action underlies the account receivable for Federal Income Taxes of $12,285,989, which was collected in January 1970.

The unamortized investment credit as of the close of 1969 of $16,060,000 represents $2,066,000 remaining from investment credits utilized by reduction of taxes paid and $13,994,000 remaining from investment credits applied against Deferred Federal Taxes on Income. (For further details see Note #1 of Notes to Financial Statements.)

The Statement of Source and Application of Funds shows significant elements of such activity. Notwithstanding the loss for 1969, operations provided $23,967,645 essentially because depreciation and maintenance reserve provision of $37,692,055 did not require a cash outlay. The funds provided were further increased by the return of deposits totaling $4,625,993 on the Boeing 727-200 aircraft (which were eventually leased by the company), the drawdown of the remaining $25 million available under credit agreements with insurance companies and a $4,706,000 net increase in the bank revolving fund.

Funds applied were consumed essentially by the purchase of airplanes, property and equipment totaling $46,196,539 and by providing for the 1970 payments of long term debt amounting to $16,195,627.

At the beginning of 1969 the company had on order six Boeing 727-200 trijets. The losses of the year 1969, the resultant erosion of working capital, and the fundamental shortage of funds available on an unsecured basis dictated that those aircraft be acquired on other than the basis of outright purchase. Further motivation was provided by the desire to achieve utilization of the investment credit. Hence, a 15-year lease was arranged through facilities of the Bank of America on a basis deemed satisfactory to the company.

The lease arrangement resulted in a modification of the bank revolving fund, which was reduced to $110,006,000 and converted to a term note on December 31, 1969. (See Note #2 of Notes to Financial Statements.)

Brief Statement of Earnings

	1969*	1968
Western's revenues came from:		
Passengers		
Coach	$192,659,374	$174,924,828
Deluxe	27,870,293	30,828,463
	220,529,667	205,753,291
Express, freight and baggage	11,969,392	9,331,361
Mail	4,502,928	4,127,583
Other income	3,705,414	3,083,569
	240,707,401	222,295,804
Western's expenses were:		
Wages and salaries	87,495,153	71,884,941
Social security, group insurance and retirement plans	9,660,929	6,650,184
Property, fuel and other taxes	4,985,938	3,915,863
Aircraft fuels	32,857,173	27,190,628
Depreciation and amortization	34,820,805	25,050,993
Materials and repairs	21,442,561	17,366,088
Utilities and services	20,399,425	16,062,717
Service to passengers	11,926,473	11,059,337
Rentals of ground facilities	5,029,186	4,397,077
Landing fees	4,360,150	3,269,829
Advertising and publicity	8,210,484	5,784,646
Insurance	5,148,098	4,603,488
Interest	14,747,559	6,535,940
Other costs	6,897,327	5,363,303
	267,981,261	209,135,034
Earnings (loss) before taxes on income	(27,273,860)	13,160,770
Taxes on income (tax credits)	(15,075,000)	4,725,000
Net earnings (loss)	$(12,198,860)	$ 8,435,770

*Operations were suspended from July 29 to August 16, 1969 because of a strike.

Brief Balance Sheet

	1969	1968
Western owns:		
Cash and short-term securities	$ 28,454,327	$ 27,870,420
Receivables due from others	19,408,382	17,954,873
Federal income taxes refundable	12,285,989	3,426,967
Maintenance and operating supplies	13,016,516	8,624,401
Buildings and improvements, net	14,007,513	11,424,108
Flight and other equipment, net	271,616,045	256,435,162
Deposits on new equipment	133,087	16,927,291
Prepaid expenses	2,986,496	3,308,028
Equipment not used in operations, net	2,062,898	256,000
Deferred charges and other	3,616,859	2,811,900
	367,588,112	349,039,150
Western owes:		
Payables due to vendors and others	34,582,902	30,666,244
Federal income taxes—deferred	17,919,000	20,344,000
Unamortized investment credits	16,060,000	15,135,000
Other deferred items	1,445,445	558,934
Tickets sold but not yet used	4,926,089	3,251,843
Notes payable—current and long term	213,345,215	185,220,843
	288,278,651	255,176,864
Excess of what is owned over what is owed, or shareholders' equity	$ 79,309,461	$ 93,862,286

Dividend Action The company paid cash dividends of 25 cents a share on March 3 and May 26, 1969. No dividends have been declared since that time. The conditions and requirements which restrict the payment of dividends are described in Note 2 of the Notes to Financial Statements.

Annual Meeting The 1970 meeting of shareholders will be held at the Beverly Hilton Hotel, Beverly Hills, California, on April 23. On or about March 19, stockholders will receive formal notice of the meeting and proxy material.

Shareholders, Stock and Debentures At the close of 1969, there were 4,903,879 shares of Western Air Lines common stock issued and outstanding, compared to 4,901,734 shares at the end of 1968.

At year's end 806,884 shares were reserved for conversion of the 5¼ percent convertible subordinated debentures sold early in 1968 and 186,200 shares reserved for stock options outstanding or available for grant under the company's qualified stock option plan.

Holders of the company's convertible debentures, which have a conversion price of $36.75 a share, received interest at the rate of 5¼ percent per year on February 1 and August 1, 1969.

The company's stock was held by approximately 20,000 shareholders.

At the 1969 annual meeting of shareholders in Beverly Hills in April, 74.4 percent of all shares were voted in person or by proxy.

Shareholders' equity in 1969 declined to $79,309,461, or $16.17 a share, from 1968 equity of $93,862,286, or $19.15 a share.

Aircraft Western took delivery of 19 new aircraft in 1969. Thirteen Boeing 737s were delivered in the first half of the year, bringing the company's fleet of the short-range twinjets to a total of 30.

During the fourth quarter, six Boeing 727-200 trijets, which were ordered in January 1968, were delivered under a lease arrangement.

Purchase arrangements announced in January 1969 for 12 other aircraft—three Boeing 747s, five Boeing 707s and four 727-200s—were cancelled later in the year when satisfactory financing arrangements could not be made.

Western has no other aircraft on order but is following the progress of all models of the new generation of wide-bodied aircraft for future needs.

At year's end the company operated a fleet of 70 jet aircraft: Five 707s, 26 Boeing 720B's (one 720B was sold during 1969), three Boeing 720s, 30 Boeing 737s and six 727s.

In January 1970, the company made plans to retire its remaining Lockheed Electras. Service with the three all-cargo Electras was suspended on January 31. Five passenger/cargo versions, which were operated on Alaskan routes in 1969, are scheduled to be withdrawn from service this spring. The eight aircraft, along with four all-passenger Electras that were previously withdrawn from service, are for sale.

Management Changes Several changes in the company's management were made at the board and executive levels during the year.

Early in 1969 a proxy contest developed, involving the extent to which Mr. Kirk Kerkorian, who had become Western's largest stockholder, should have representation on the board of directors. To achieve a harmonious solution, the board, at its morning meeting on April 24, increased the number of directors to 21. Three incumbent directors—Leonard K. Firestone, Edwin W. Pauley and Howard C. Westwood—then submitted their resignations and withdrew as nominees for election at the shareholders' meeting. The resulting nine vacancies on the 21-man board were filled by election of the nine members of Mr. Kerkorian's slate of nominees. The new directors were: Fred Benninger, Lowell S. Dillingham, Leo H. Dwerlkotte, Sherwood H. Egbert, Peter M. Kennedy, Mr. Kerkorian, Walter M. Sharp, William Singleton and John S. Wiester. The full board of 21 was then elected by the shareholders at the annual meeting later the same morning.

At the July meeting of the board, Edwin W. Pauley was elected to succeed Mr. Dillingham, who had resigned. At the October board meeting, James D. Aljian was elected to fill the vacancy created by the death of Mr. Egbert.

At its October meeting, the board elected J. Judson Taylor president and chief executive officer, Terrell C. Drinkwater chairman of the board, and Mr. Benninger vice chairman of the board. Mr. Taylor joined the company in 1942 and was serving as senior vice president and treasurer; Mr. Drinkwater had served as Western's president since January 1947.

Other re-assignments and promotions of officers and department directors included: Charles J. J. Cox, vice president-finance; Ernest T. Kaufmann, vice president-regulatory affairs; Lawrence H. Lee, vice president-industrial relations; Philip E. Peirce, vice president-administration; J. S. Neel, vice president-ground services; R. O. Hammond, treasurer and

assistant secretary; Roderick G. Leith, assistant treasurer and controller; H. S. Gray, assistant treasurer; David E. Holt, assistant vice president-agency and tour sales; Neil S. Stewart, assistant vice president-government and industry affairs and Dan A. Zaich, assistant vice president-labor relations.

The company suffered the loss of its vice president-cargo sales on August 9 when Harold A. Olsen died unexpectedly.

At its first meeting of 1970, the board voted to reduce the number of directors from 21 to 20 after Otis Chandler, who had served as a director since 1964, resigned. Goodrich Lowry, who was elected a director in 1957 and became a director-emeritus in October 1967, also resigned.

Sales and Service Despite the strike which halted all flights for 18 days during the peak travel period and resulted in less-than-usual traffic in the weeks that followed the shutdown, Western carried a record 5,752,072 passengers during 1969, compared to 5,692,947 in 1968.

Passenger revenues increased 7.2 percent, from $205,753,291 in 1968 to $220,529,667 in 1969.

Revenues from air cargo shipments (freight, express, excess baggage, air mail and regular first class mail) increased from $13,458,944 in 1968 to $16,472,320 in 1969.

Although showing increases in seat miles sold that were higher than the industry average before the strike, the company was not able to sell a satisfactory proportion of the increases in seat mile production that were introduced during the year. As a result, Western's overall passenger load factor decreased from 54.1 percent in 1968 to 47.3 percent in 1969.

Consuming a large share of the company's marketing effort during the year was the addition of Hawaii to the Western route system. Recognizing that the majority of Hawaii traffic is booked several months in advance of actual travel, the company began early in the year to identify Western with the Hawaii markets.

Based on an "Islander" theme, a team of sales and service personnel developed and tested in-flight and ground features designed to create a Polynesian vacation atmosphere the moment a passenger checked-in for his flight to Hawaii. The "Islander" concept was constructed around dining and personalized service that has since been described by many Hawaii travelers as "the finest ever provided to the islands."

Despite months of preparation, the company found the highly competitive Hawaii market difficult to penetrate. Because of the repeated postponements in the effective date of the CAB's final decision, and the strike that halted all operations only four days after Los Angeles-Hawaii service was inaugurated, the company lost virtually all of its advance bookings for 1969.

Western's initial pattern of service included 34 roundtrips a week to Honolulu from the West Coast gateway cities of Los Angeles, San Francisco, Oakland and San Diego, with through-plane service to Las Vegas, Phoenix, Salt Lake City, Denver and Minneapolis-St. Paul and the first direct service weekly between Alaska and Hawaii.

Weekly Hilo-Los Angeles service was inaugurated on November 1 and Hilo-San Francisco service on December 15 in order to participate in the group travel that begins a Hawaiian vacation at Honolulu and departs for the Mainland from Hilo at the end of the tour.

Western's inauguration of service to Hawaii was provided by the five Boeing 707s that were delivered in 1968. The addition of a 720B to these new routes in December increased the company's Hawaii service to 48 roundtrips a week.

The 13 Boeing 737 twinjets that were delivered in the first half of 1969 were used to increase frequency on existing commuter and short-haul routes and, following the inauguration of service to Hawaii, to supplant service that had been provided by the 707s on domestic routes.

Delivery of six new Boeing 727s late in the year permitted the company to withdraw five additional 720B's from service in order to convert them to overwater configuration.

In an effort to attract new business travel to Western flights and stimulate increased vacation travel between the 49th and 50th states, Western introduced an attractive and exclusive California-Hawaii-Alaska "triangle fare" on October 30. The fare permits travelers between Southern California and Anchorage to visit Hawaii on either leg of their trip at no extra cost. Savings in fare are available from any of the points on the triangle, with Western receiving the entire long-haul. In order to increase its applicability, a second weekly Anchorage-Honolulu flight was added on December 15.

Although slow to develop, Hawaii traffic has increased steadily and the all-important tour and group travel that was not available to the company in 1969 is being booked in volume for 1970.

On January 15, 1970, Western introduced the first of two major steps to improve its competitive posture in the Hawaii markets. In an effort to increase its share of the coach and economy traffic, the company increased the legroom in each

of these sections to 38 inches, the same as first class. At the same time, each Hawaii aircraft was equipped with a company-designed "Aloha table," a portable unit which resembles the armrest/table that is installed between first class seats. Whenever the middle seat is not occupied in the coach section, the armrests may be removed and the Aloha table installed to provide wider space and "two plus two" seating and convenience in the coach section.

The second step in the program will be accomplished by March 6 when the installation of widescreen movie and stereo equipment will be completed on eleven aircraft to be used on Hawaii routes in 1970. Schedule frequency will be increased to 70 roundtrips a week on March 20.

As it has in other vacation markets it serves, the company has developed an exclusive, low-cost "Magic Week in Hawaii" tour package that is being widely promoted. Western is working closely with ground, sea and other air transportation companies and hotel and tour operators in the islands in the production of sports and other recreation tours that will permit the company to participate in every facet of Hawaii travel.

Other major sales programs for Western during 1969 involved its two major Mexico destinations, Acapulco and Mexico City; Alaska; the company's many Sun Break winter vacation areas; an annual Ski Country program that included 16 major ski areas; and summer travel to WAL's North Country attractions—Yellowstone and the national parks of the Rockies, Minnesota, the Pacific Northwest, and the Canadian provinces of British Columbia and Alberta.

Travel agents, who participated in the sale of approximately 40 percent of the company's passenger revenues, tour operators, hotels and operators of other forms of transportation again played a major role in Western's marketing activities.

Personnel The company began 1969 with 8,919 employees on its payroll. Stimulated by the delivery of additional aircraft and preparations for the inauguration of service to Hawaii, this number increased 12.4 percent to a record 10,026 employees at the end of July.

In mid-August, a program to reduce costs was launched and resulted in a decrease to 9,011 employees by the end of February.

Wages and salaries for the year amounted to $87,495,153, approximately 34.6 percent of operating expenses, compared to $71,884,941, or 35.6 percent of operating expenses, in the previous year.

Labor contracts which will result in increased costs of 14 percent per year in wages and benefits over the next three years were signed with the company's 2,000 mechanics and 4,000 agents and clerical personnel. Negotiations with these two groups were concluded in August and September. An agreement which covers stewardesses is being negotiated at the present time and a contract covering pilots will be open for negotiation in September of this year.

Route Development Most important development in Western's route program during 1969 was the final decision in the TransPacific case in which the company received routes to Hawaii it has sought for more than 10 years.

The domestic decision in the case, which gave Western routes to Honolulu/Hilo from 11 Mainland points, became effective on July 22 after several postponements. The decision was originally issued by the Civil Aeronautics Board on January 4 with an effective date of March 5. Western selected April 27 as the date it would inaugurate service and began preparing personnel, equipment and facilities for that date.

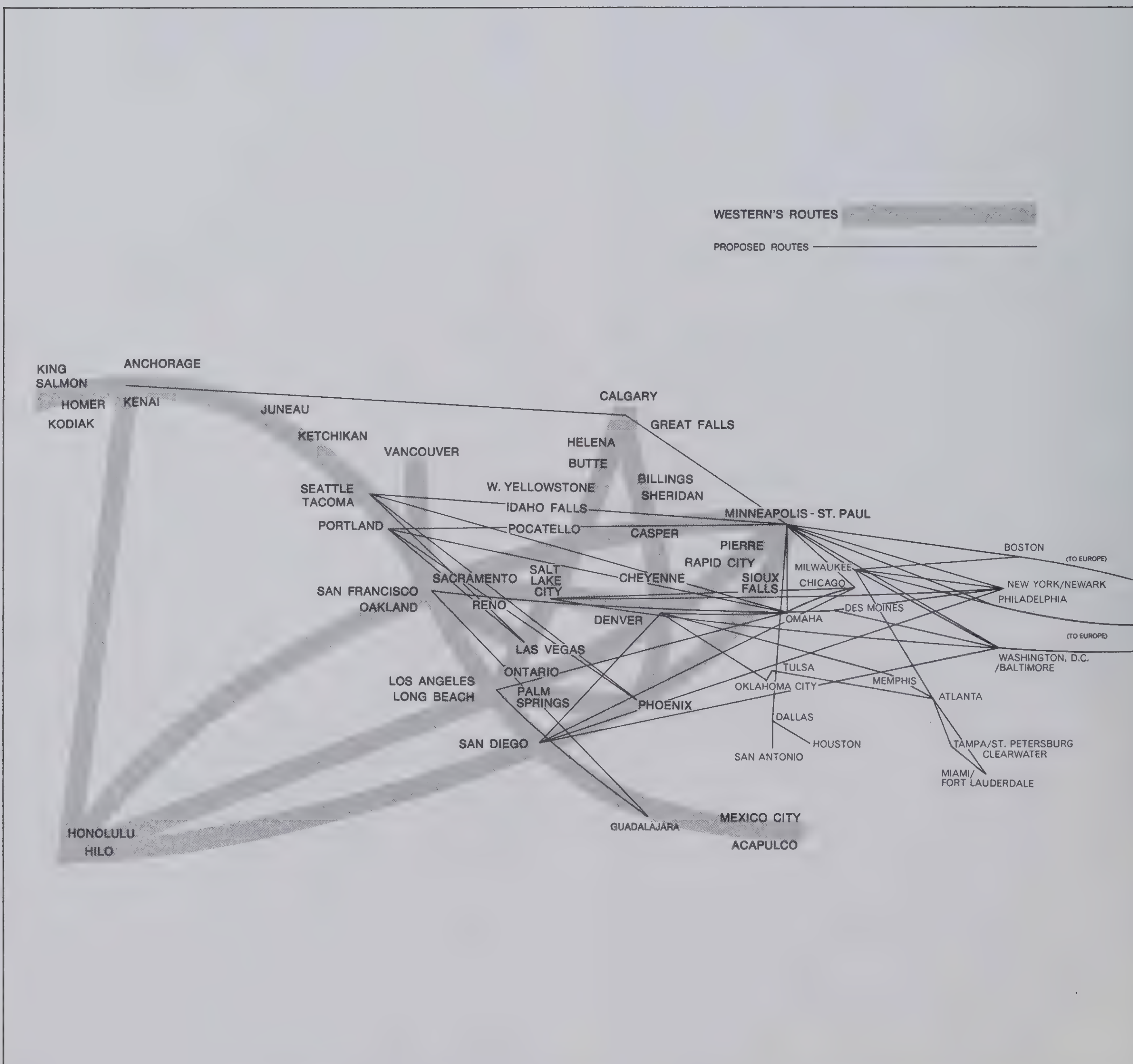
Because of the delays in the international phase of the case, however, the domestic decision went through a series of postponements that made it necessary for the company to repeatedly delay its service. Neither the five Boeing 707s that were to be used in Hawaii service or the employees who staffed the company's Hawaii facilities could be used efficiently during the costly three-month delay for Western.

The company became the first of the new Hawaii carriers to inaugurate service on July 25 when it operated flights from Minneapolis-St. Paul and from Phoenix to Honolulu, both via Los Angeles.

Introduction of Western's Hawaii service from San Diego, San Francisco, Oakland, Las Vegas, Denver and Anchorage was delayed until late August by the strike.

Of equal importance in terms of immediate impact on company earnings was the CAB decision which provided competitive service on the nonstop portions of Western's most profitable market, California-Twin Cities. Competitive service from Los Angeles and San Francisco to the Twin Cities was inaugurated on October 4. The decision in that case also made Western's temporary authority to operate nonstop service on these segments permanent.

First competitive service also was authorized and inaugurated by other carriers on the company's Denver-Twin Cities, Denver-Casper, Denver-Billings routes and additional competition was placed on the Denver-Salt Lake City segment. New authority also was granted to intra-California carriers


WESTERN'S ROUTES
PROPOSED ROUTES
KING SALMON
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JUNEAU
KETCHIKAN
VANCOUVER
CALGARY
GREAT FALLS
HELENA
BUTTE
BILLINGS
SHERIDAN
W. YELLOWSTONE
IDAHO FALLS
POCATELLO
SEATTLE TACOMA
PORTLAND
MINNEAPOLIS - ST. PAUL
CASPER
PIERRE
RAPID CITY
SIOUX FALLS
BOSTON
(TO EUROPE)
MILWAUKEE
CHICAGO
NEW YORK/NEWARK
PHILADELPHIA
SACRAMENTO
SALT LAKE CITY
CHEYENNE
SAN FRANCISCO
OAKLAND
RENO
DES MOINES
OMAHA
DENVER
(TO EUROPE)
WASHINGTON, D.C. /BALTIMORE
LAS VEGAS
ONTARIO
TULSA
LOS ANGELES LONG BEACH
PALM SPRINGS
OKLAHOMA CITY
MEMPHIS
ATLANTA
PHOENIX
DALLAS
SAN DIEGO
HOUSTON
SAN ANTONIO
TAMPA/ST. PETERSBURG CLEARWATER
MIAMI/ FORT LAUDERDALE
MEXICO CITY
GUADALAJARA
ACAPULCO
HONOLULU
HILO

operating between Southern California and the San Francisco/Oakland/San Jose and Sacramento areas.

In an effort to offset the revenue losses suffered by Western through these and other increases in the level of competition that have been made by regulatory action in recent years, the company has intensified its efforts to obtain new routes that would give it access to the major traffic centers of Chicago and the East Coast. Applications for these areas are pending in four cases now awaiting CAB action:

Twin Cities-Milwaukee Long Haul Investigation—A case to investigate the need for additional service from the Twin Cities and/or Milwaukee to Portland/Seattle and to Boston, New York, Philadelphia and Washington/Baltimore. Although not recommended by the Examiner in the case, Western is seeking to serve all markets in the case. A final decision is expected by this summer.

Additional Service to San Diego Case—Western was recommended for San Diego-Denver, San Diego-New York and San Diego-Washington/Baltimore nonstop authority by the Examiner. It also seeks San Diego-Chicago authority. A final decision is expected soon.

Service to Omaha and Des Moines—Western was recommended by the Examiner for Seattle/Portland-Omaha, Denver-Omaha and Omaha-Chicago authority. It is also seeking Los Angeles- and San Francisco- and Twin Cities-Omaha/Des Moines authority and routes to New York and Washington/Baltimore via these Midwest cities. A final decision is expected by this summer.

Service to Salt Lake City Investigation—a case involving service between Salt Lake City, Chicago, New York, Washington/Baltimore and San Francisco. Although a carrier which already has transcontinental authority was recommended by the Examiner in the case, Western is seeking to extend its San Francisco-Salt Lake City authority to Chicago, New York and Washington/Baltimore. A final decision in the case is expected by this fall.

In the **Phoenix-Portland/Seattle Nonstop Case,** in which Western is seeking authority to eliminate a mandatory stop at Los Angeles on existing flights, the Examiner has recommended that Western and one other trunkline provide competitive service on the route. The company does not believe a second nonstop carrier is required and is urging the CAB to reverse this portion of the Examiner's recommendation. Final board action is expected late this year.

A route case designed to bring additional competition to the company's important Pacific Coast routes is the **Pacific Northwest-California Service Investigation.** The Examiner has recommended that three additional carriers be certificated to provide competitive service in the Seattle and Portland to San Francisco/Oakland/San Jose and Los Angeles/Ontario/Long Beach markets. Western, which would be permitted to eliminate a stop on its San Diego-Portland/Seattle route, is contending that the Examiner's recommendations would result in excessive competition in these markets and has asked the CAB to reverse the decision. A final board decision is expected later this year.

Awaiting an Examiner's decision is the **Twin Cities/Milwaukee-Southeast Points Case,** in which Western has applied for routes to Atlanta, Tampa and Miami.

Two cases in which hearings will begin shortly are the **Las Vegas/Reno-Portland/Seattle Nonstop** Service Investigation, in which Western is an applicant for nonstop service from Las Vegas and Reno to Portland and Seattle, as well as service between the two Nevada cities; and the **Alaska Service Investigation,** which will review intra-Alaska service and routes from Portland and Seattle to key cities in Alaska (but not Portland/Seattle-Anchorage, which is not an issue in the case). Pending final outcome of the case, Western obtained temporary authority from the CAB to suspend service at Yakutat and Cordova, effective September 11.

Early in 1970, the company reached an agreement with Wien Consolidated Airlines, an Anchorage-based local service carrier, whereby service by Wien would be substituted for that now being provided by Western on routes west of Anchorage.

On February 2, Western and Wien filed a joint application with the CAB seeking authority for Western to suspend service on the Anchorage-Kenai-Homer-Kodiak and Anchorage-Homer-King Salmon routes and for exemption authority for Wien to provide the service in lieu of Western.

Because of the local service nature of the routes—Anchorage-Kenai, 61 miles; Kenai-Homer, 64 miles; Homer-Kodiak, 137 miles; and Homer-King Salmon, 195 miles—Western believes these routes can best be served by a local service carrier based in Alaska.

Western would continue to serve Alaska on Seattle-Anchorage, Seattle-Ketchikan-Juneau-Anchorage and Honolulu-Anchorage flights.

10 Years of Growth

Financial	1969[4]	1968	1967
Revenues:[5]			
Passenger	$220,530	205,753	178,527
Express, freight and excess baggage	11,969	9,331	7,581
Mail	4,503	4,128	4,221
Other	3,350	2,741	2,153
Total Revenues	240,352	221,953	192,482
Operating Expenses:[5]			
Depreciation and amortization	34,821	25,051	20,085
Payroll	87,495	71,885	57,975
Other	130,437	105,335	89,082
Total Operating Expenses	252,753	202,271	167,142
Operating Income[5] (Loss)	(12,401)	19,682	25,340
Interest[5]	(14,748)	(6,536)	(3,011)
Other Income and Expenses—Net[5]	(125)	15	17
Earnings (Loss) before Taxes on Income[5]	(27,274)	13,161	22,346
Taxes on Income (Tax Credits)[5]	(15,075)	4,725	10,125
Net Earnings (Loss) from Operations[5]	(12,199)	8,436	12,221
Gain on Major Dispositions of Property (Less Applicable Income Taxes)[5]	—	—	—
Net Earnings[5] (Loss)	$(12,199)	8,436	12,221
Shareholders			
Net earnings (loss) from operations per share[2]	$ (2.49)	1.72	2.50
Gain on disposition of property per share[2]	—	—	—
Total	$ (2.49)	1.72	2.50
Dividends paid per share:			
Cash[3]	$ 0.50	1.00	1.00
Stock	—	—	—
Shares outstanding—actual[5]	4,904	4,902	4,893
—adjusted[2, 5]	4,904	4,902	4,893
Shareholders' equity—total[5]	$ 79,309	93,862	90,016
Shareholders' equity—a share[2]	16.17	19.15	18.40
Working capital[5]	20,447	25,764	19,585
Long-term debt[5]	197,150	183,718	80,189
Property and equipment—net[5]	285,757	284,787	183,106
Total assets[5]	367,588	349,039	231,342
Operations			
Route miles at end of year	24,523	14,156	14,156
Airplanes operated at end of year:			
Boeing 720-B	26	27	27
Boeing 720	3	3	3
Boeing 707-300C	5	5	—
Boeing 737	30	17	—
Boeing 727—leased	6	—	—
Other aircraft	8	12	21
Airplane miles flown[5]	72,650	60,125	51,692
Ton miles produced[5]	1,077,657	891,001	728,200
Ton miles sold[5]	448,420	418,856	360,791
Seat miles produced[5]	8,509,441	7,096,229	5,879,442
Seat miles sold[5]	4,021,296	3,841,864	3,327,160
Express, freight and mail ton miles sold[5]	60,514	47,446	38,940
Passengers carried	5,752,072	5,692,947	5,107,672
Express, freight and mail tons carried	66,107	58,129	48,579
Passenger load factor—actual %	47.3	54.1	56.6
—breakeven point %	53.1	50.7	49.5
Average length in miles per passenger trip	696	675	651
Operating expenses per seat mile produced	$ .0297	.0285	.0284
Average revenue per seat mile sold	$ .0551	.0537	.0537
Employees at end of year	9,225	8,919	7,282

[1]All financial data in this report give effect, retroactively throughout the periods prior to 1968, to the merger of Pacific Northern Airlines into Western on July 1, 1967, which was accounted for as a pooling of interests.

[2]Based on shares of the Company outstanding at the close of the respective periods, adjusted to give retroactive effect to stock dividends, the May 1964 three-for-one split, and the equivalent outstanding shares of Pacific Northern Airlines, Inc., merged into the Company on July 1, 1967.

1966[4]	1965	1964	1963	1962	1961[4]	1960
164,186	129,704	121,928	103,183	89,837	67,442	71,577
6,848	5,991	5,897	5,055	4,747	3,833	3,775
4,255	3,135	2,962	2,603	2,659	2,364	2,300
1,895	1,768	2,095	3,472	2,878	2,935	3,022
177,184	140,598	132,882	114,313	100,121	76,574	80,674
15,779	14,676	12,980	12,373	14,605	12,033	11,040
47,350	38,731	34,500	30,114	27,108	22,837	23,982
77,708	62,391	57,650	50,969	47,997	38,848	38,740
140,837	115,798	105,130	93,456	89,710	73,718	73,762
36,347	24,800	27,752	20,857	10,411	2,856	6,912
(3,239)	(2,553)	(2,491)	(2,916)	(2,725)	(1,930)	(1,428)
775	253	783	621	472	(140)	439
33,883	22,500	26,044	18,562	8,158	786	5,923
15,558	10,337	12,493	9,252	4,130	443	3,365
18,325	12,163	13,551	9,310	4,028	343	2,558
—	883	—	191	889	807	86
18,325	13,046	13,551	9,501	4,917	1,150	2,644
3.79	2.52	2.81	1.93	0.83	0.07	0.53
—	0.18	—	0.04	0.19	0.17	0.02
3.79	2.70	2.81	1.97	1.02	0.24	0.55
1.00	0.80	0.65	0.37	0.33	0.33	0.33
—	—	—	—	—	—	5%
4,835	4,826	4,826	1,965	1,965	1,965	1,965
4,835	4,826	4,826	4,826	4,826	4,826	4,826
81,750	67,361	57,748	46,988	39,061	35,574	35,854
16.91	13.96	11.97	9.74	8.09	7.37	7.43
18,047	11,522	8,274	5,031	12,315	5,369	16,757
54,867	47,411	33,938	41,106	48,856	39,018	25,097
145,771	124,096	99,928	93,284	80,052	69,865	46,833
192,008	157,973	138,335	125,806	115,266	95,258	78,836
13,075	13,075	12,991	12,991	13,086	12,368	12,368
22	18	12	10	7	4	—
3	2	2	2	2	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
23	24	33	33	34	39	45
42,830	36,554	36,746	33,388	29,551	25,239	30,410
585,378	483,033	450,856	400,395	348,854	256,572	237,118
314,137	244,588	231,303	191,229	159,658	121,850	127,609
4,800,901	4,016,921	3,794,648	3,335,083	2,746,549	1,967,313	2,016,690
2,898,088	2,243,695	2,124,582	1,753,037	1,435,992	1,080,189	1,150,785
33,070	26,435	24,625	20,622	19,786	16,315	15,214
4,700,839	3,807,706	3,717,189	2,970,909	2,270,455	1,659,323	1,841,863
42,714	33,511	30,956	25,890	25,256	20,378	19,829
60.4	55.9	56.0	52.5	52.3	54.9	57.0
47.9	46.2	44.4	44.3	48.6	55.4	56.5
616	589	572	590	633	651	625
.0293	.0288	.0277	.0280	.0327	.0375	.0366
.0567	.0578	.0574	.0589	.0626	.0624	.0622
6,294	5,068	4,719	4,126	3,713	3,418	3,347

[3]Cash dividends per share for periods prior to January 1, 1967 are stated on the basis of the Company's shares (exclusive of equivalent Pacific Northern shares) outstanding at the date such dividends were declared as adjusted for stock dividends and the stock split.

[4]Operations were suspended from July 29 to August 16, 1969 and substantially curtailed from February 17 to June 1, 1961 because of strikes. Five other major carriers were struck from July 8 to August 19, 1966.

[5]000s omitted.

ASSETS	1969	1968
Current Assets:		
Cash	$ 23,472,571	$ 21,895,337
Short-term securities (approximating market)	4,981,756	5,975,083
Receivables	19,408,382	17,954,873
Federal income taxes refundable *(Note 1)*	12,285,989	3,426,967
Maintenance and operating supplies	13,016,516	8,624,401
Prepaid expenses	2,986,496	3,308,028
Total Current Assets	76,151,710	61,184,689
Property and Equipment at Cost:		
Flight equipment	370,020,328	331,460,810
Ground equipment	58,954,097	56,286,880
Deposits on purchase contracts	133,087	16,927,291
	429,107,512	404,674,981
Less allowance for depreciation and maintenance	143,350,867	119,888,420
	285,756,645	284,786,561
Deferred Charges and Other Assets:		
Boeing 737 and 727 preoperating costs, net	1,680,450	1,000,460
Equipment not used in operations, net	2,062,898	256,000
Other items	1,936,409	1,811,440
	5,679,757	3,067,900
	$367,588,112	$349,039,150

See accompanying notes to financial statements

Balance Sheet

Western Air Lines Inc.

December 31, 1969 with comparative figures for 1968

LIABILITIES	**1969**	**1968**
Current Liabilities:		
Accounts payable	$ 18,227,504	$ 16,189,708
Accrued salaries and wages	9,421,598	7,971,475
Accrued liabilities	6,933,800	6,505,061
Unused transportation	4,926,089	3,251,843
Current maturities of long-term debt	16,195,627	1,502,627
Total Current Liabilities	55,704,618	35,420,714
Long-Term Debt *(Note 2)*	197,149,588	183,718,216
Deferred Credits *(Note 1):*		
Deferred federal taxes on income	17,919,000	20,344,000
Unamortized investment credits	16,060,000	15,135,000
Other	1,445,445	558,934
	35,424,445	36,037,934
Shareholders' Equity *(Notes 2 and 5):*		
Common stock — $1.00 par value per share		
Authorized 10,000,000 shares		
Issued 4,903,879 and 4,901,734 shares	4,903,879	4,901,734
Capital in excess of par value	19,235,433	19,139,909
Retained earnings	55,170,149	69,820,643
	79,309,461	93,862,286
	$367,588,112	$349,039,150

Statement of Earnings and Retained Earnings

Western Air Lines Inc.

For the year ended December 31, 1969 with comparative figures for 1968

	1969*	1968
Operating Revenues:		
Passenger	$220,529,667	$205,753,291
Express, freight and excess baggage	11,969,392	9,331,361
Mail	4,502,928	4,127,583
Other	3,349,801	2,740,632
	240,351,788	221,952,867
Operating Expenses:		
Flying operations	62,799,486	50,056,928
Maintenance	36,954,934	30,114,796
Passenger service	24,918,332	21,086,034
Aircraft and traffic servicing	47,384,866	36,943,382
Marketing and administrative	45,874,267	39,019,313
Depreciation and amortization *(Note 6)*	34,820,805	25,050,993
	252,752,690	202,271,446
Operating Income (Loss)	(12,400,902)	19,681,421
Other Income (Expenses):		
Interest expense	(14,747,559)	(6,535,940)
Interest income	355,613	342,937
Other expense — net	(481,012)	(327,648)
Earnings (Loss) before Taxes on Income	(27,273,860)	13,160,770
Taxes on Income (tax credits) *(Note 1)*	(15,075,000)	4,725,000
Net Earnings (Loss) $2.49 net loss per share in 1969 and $1.72 net earnings per share in 1968 based on shares outstanding at end of each year ($1.64 net earnings in 1968 assuming conversion of debentures)	(12,198,860)	8,435,770
Retained Earnings at Beginning of Year	69,820,643	66,278,417
	57,621,783	74,714,187
Cash Dividends Paid	2,451,634	4,893,544
Retained Earnings at End of Year *(Note 2)*	$ 55,170,149	$ 69,820,643

*Operations were suspended from July 29 to August 16, 1969 because of a strike.
See accompanying notes to financial statements

Statement of Source and Application of Funds

Western Air Lines Inc.

For the year ended December 31, 1969 with comparative figures for 1968

Funds Provided:	**1969***	**1968**
Net earnings (loss)	$ (12,198,860)	$ 8,435,770
Add back		
Depreciation, amortization and maintenance reserve provision	37,692,055	26,239,220
Deferred income taxes	7,000,000	2,182,000
Charge (credit) related to investment credits	(6,350,000)	1,705,000
Amortization of investment credits	(2,150,000)	(2,173,000)
Loss (gain) on dispositions of property	(25,550)	73,462
Total from operations	23,967,645	36,462,452
Sale of 5¼ % convertible subordinated debentures	—	30,000,000
Increase in other long-term debt	29,706,000	75,300,000
Refunds of equipment purchase deposits	4,625,993	—
Proceeds from disposition of property	2,909,046	452,796
Exercise of stock options	—	39,996
Total	61,208,684	142,255,244

Funds Applied:		
Purchase of airplanes, property and equipment	46,196,539	128,421,282
Reduction of long-term debt	16,195,627	1,502,627
Payment of cash dividends	2,451,634	4,893,544
Boeing 737 and 727 preoperating costs	1,483,430	1,000,460
Other items	198,337	817,072
	66,525,567	136,634,985
Increase (decrease) in working capital	(5,316,883)	5,620,259
Total	$ 61,208,684	$142,255,244

*Operations were suspended from July 29 to August 16, 1969 because of a strike.

Notes to Financial Statements

Note 1. Taxes on Income. The 1969 net income tax credit is summarized as follows:

Income taxes refundable	$(13,575,000)
Provision for deferred income taxes	7,000,000
Credit equivalent to the reductions of investment credits previously applied to tax returns	(6,350,000)
	(12,925,000)
Amortization of investment credits	2,150,000
Net income tax credit	$(15,075,000)

Deferred income taxes arise from timing differences between financial and tax reporting. These differences are caused primarily by depreciation practices.

Investment credits offset against the balance of deferred federal taxes on income at December 31, 1969 for application on future tax returns amounted to $17,921,000—$9,425,000 in 1969 and $8,496,000 in 1968. Of these credits, $907,000 expires in 1972; $2,059,000, in 1973; $2,608,000, in 1974; $9,226,000 in 1975; and $3,121,000, in 1976.

Of the $16,060,000 unamortized investment credit balance at December 31, 1969, $2,066,000 remains from investment credits utilized by reduction of taxes paid and $13,994,000 is related to investment credits not yet utilized for reduction of taxes paid.

Federal income tax returns have been examined by the U.S. Treasury Department through 1967.

Note 2. Long-term Debt (Unsecured). On December 31, 1969, long-term debt was as follows:

Promissory note (authorized $110,006,000) due December 31, 1975, with quarterly payments commencing on March 31, 1970. The interest rate (currently 8¾%) is ¼% over the bank's prime commercial rate	$110,006,000
5¼% promissory notes (authorized $30,000,000) due September 1, 1981 with annual payments of $1,000,000 starting September 1, 1970 and increasing to $4,000,000 a year in 1976	30,000,000
6⅝% promissory notes (authorized $40,000,000) due September 1, 1984 with annual payments of $1,000,000 starting September 1, 1970, increasing to $2,000,000 a year in 1975 and further increasing to $7,000,000 a year starting in 1982	40,000,000
5% to 6½% promissory notes due 1970 and 1972	3,686,215
	183,692,215
Less current maturities	16,195,627
	167,496,588
5¼% convertible subordinated debentures due February 1, 1993, with sinking fund payments of $1,500,000 a year starting in 1979	29,653,000
	$197,149,588

The following schedule shows the amount of long-term debt maturing in each of the five years subsequent to December 31, 1969:

1970	$16,195,627
1971	22,965,227
1972	22,143,561
1973	21,462,600
1974	21,462,600

Reserved for the conversion of debentures are 806,884 shares of common stock at $36.75 per share (subject to adjustments in certain cases.) During 1969, $79,000 principal amount of debentures were converted into 2,145 shares of common stock. The difference between the debentures surrendered and the par value of the common stock issued, which net of unabsorbed costs amounted to $75,524, was credited to capital in excess of par value.

The related agreements with the bank and the insurance companies provide among other things (including restrictions on additional borrowings) conditions and requirements which operate to restrict retained earnings from which cash dividend distributions can be made. The indenture for the debentures also contains a requirement which operates to restrict retained earnings from which cash dividend distribution can be made. At December 31, 1969, the indenture operated to prevent any use of retained earnings for cash dividend distribution.

Note 3. Commitments and Contingent Liabilities. The estimated minimum annual rentals under long-term leases of real property, with expiration dates ranging to 1998, were approximately $2,934,000 at December 31, 1969.

Annual rentals under a lease agreement covering six Boeing 727 aircraft are approximately $2,992,000 in 1970, $3,843,000 in 1971 and $4,130,000 each year thereafter through 1984.

At December 31, 1969, various legal actions were pending against the City of Los Angeles, the company and other airlines, alleging excessive aircraft noise in the vicinity of Los Angeles International Airport. The company's counsel in these actions, which also represents most of the other airlines, is of the opinion that the airlines have substantial defenses to the imposition of any liability.

On February 5, 1970, an interlocutory judgment was entered in one of the cases against the City of Los Angeles awarding damages aggregating $740,000 to 620 property owners. The City has indicated its intention to appeal.

Note 4. Retirement Plans. The company has retirement plans covering all eligible employees. The cost of these plans charged to operating expense in 1969 totaled $3,651,228. The company's actuary is of the opinion that accrued vested benefits do not exceed the assets of the plans.

Note 5. Stock Options. At December 31, 1969, options were outstanding for the purchase of 137,500 shares of common stock by officers at an average option price of $26.71 per share. An additional 48,700 shares were reserved for issuance of future options.

Note 6. Depreciation and Amortization. Depreciation for book purposes is computed on the straight line basis. Depreciation for 1969 amounted to $33,144,561.

Accountants' Report

The Board of Directors
Western Air Lines, Inc.:

We have examined the balance sheet of Western Air Lines, Inc. as of December 31, 1969 and the related statement of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for 1968.

In our opinion, the accompanying balance sheet and statement of earnings and retained earnings present fairly the financial position of Western Air Lines, Inc. at December 31, 1969 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and application of funds for the year ended December 31, 1969 presents fairly the information shown therein.

Los Angeles, Calif.
February 25, 1970

Peat, Marwick, Mitchell & Co.

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Secretary-Treasurer, Tracy Investment Company, Las Vegas, Nevada

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Fred Benninger, *Vice Chairman*

J. Judson Taylor, *President and Chief Executive Officer and Director*
Stanley R. Shatto, *Executive Vice President-Transportation and Director*
Arthur F. Kelly, *Senior Vice President-Sales and Director*
Arthur G. Woodley, *Vice President-Alaska and Director*
Charles J. J. Cox, *Vice President-Finance*
Ernest T. Kaufmann, *Vice President-Regulatory Affairs*
Robert O. Kinsey, *Vice President and Assistant to the President*
Philip E. Peirce, *Vice President-Administration*
Jack M. Slichter, *Vice President-Government and Industry Affairs*
Gordon Pearce, *Corporate Secretary and Director of Law*

Richard B. Ault, *Vice President-Engineering*
Willis R. Balfour, *Vice President-Agency and Interline Sales*
Harold W. Caward, *Vice President-Flight Operations*
Henry M. Debutts, *Vice President-Washington*
Richard P. Ensign, *Vice President-Inflight Services*
Anton B. Favero, *Vice President-Maintenance*
Rick O. Hammond, *Treasurer and Assistant Secretary*
Lawrence H. Lee, *Vice President-Industrial Relations*
Bert D. Lynn, *Vice President-Advertising and Sales Promotion*
J. P. Maginnis, *Vice President-Procurement*
J. S. Neel, Jr., *Vice President-Ground Services*
Gerald P. O'Grady, *Vice President-Properties and Facilities*
Eugene D. Olson, *Vice President-Data Processing and Systems*
Luis Pasquel, *Vice President-Mexico*
Ray Silvius, *Vice President-Public Relations*
Harry L. White, *Vice President-Sales Administration*
Peter P. Wolf, *Vice President-Communications*
Charles S. Fisher, *Assistant Vice President-Flight Schedules*
Joseph M. Fogarty, *Assistant Vice President-Maintenance and Overhaul*
H. S. Gray, *Assistant Treasurer and Budget Director*
David E. Holt, *Assistant Vice President-Agency and Tour Sales*
Roderick G. Leith, *Assistant Treasurer and Controller*
S. J. Rogers, *Assistant Vice President-Tariffs*
Neil S. Stewart, *Assistant Vice President-Government and Industry Affairs*
Dan A. Zaich, *Assistant Vice President-Labor Relations*

Western Air Lines Inc.,

March 7, 1968

WESTERN AIRLINES

An application by Western Air Lines Inc. of Los Angeles to add a direct Denver-to-Calgary service was heard yesterday by examiner Joseph Fitzmaurice of the U.S. Civil Aeronautics Board. Mr. Fitzmaurice said the only opposition he observed from five intervenors was from Frontier Airlines Inc. of Denver. Calgary and Denver interests supported the application. Western already flies to Calgary and from Denver via Great Falls, Mont., and would continue to do so. It has been given until March 22 to file a brief on the proceedings. Mr. Fitzmaurice's recommendation will go to the full board, but President Lyndon Johnson has ultimate authority for the final decision.

General Offices
Western Air Lines Building, 6060 Avion Drive
Los Angeles International Airport
Los Angeles, California 90009

Stock Registrars
Bank of America National Trust & Savings Assn.
111 West Seventh Street, Los Angeles, California 90014

The Chase Manhattan Bank
1 Chase Manhattan Plaza, New York, New York 10015

Stock Transfer Agents
Security Pacific National Bank
124 West Fourth Street, Los Angeles, California 90014

Chemical Bank
20 Pine Street, New York, New York 10015

Debenture Trustee
The Chase Manhattan Bank
1 Chase Manhattan Plaza, New York, New York 10015

Stock Listings
Listed and traded on
New York Stock Exchange
Pacific Coast Stock Exchange

General Counsel
Hugh W. Darling
Darling, Hall, Rae & Gute
523 West Sixth Street, Los Angeles, California 90014

Independent Accountants
Peat, Marwick, Mitchell & Co.
629 South Spring Street, Los Angeles, California 90014

Annual Meeting
Fourth Thursday in April